



STATE OF DELAWARE


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July 15, 2016

**TO:** The Chair and Members of the Commission

**FROM:** Jason R. Smith   
Public Utilities Analyst III

**SUBJECT:** IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR A GENERAL INCREASE IN ITS NATURAL GAS RATES AND FOR APPROVAL OF CERTAIN OTHER CHANGES TO ITS NATURAL GAS TARIFF (FILED DECEMBER 21, 2015) – PSC DOCKET NO. 15-1734

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**Application:**

On December 21, 2015, the Delaware Division of Chesapeake Utilities Corporation ("Chesapeake" or the "Company") filed an application ("Application") seeking approval for an increase in its natural gas base rates. The total revenue increase requested by Chesapeake in this matter is approximately \$4,741,823 or 9.96% of existing revenues over total current delivery service rates (*See Application ¶ 4*). Pursuant to 26 *Del. C.* §306(c) the Company included in its Application a request for authorization to collect temporary rates designed to produce an annual increase of \$2,500,000 beginning February 19, 2016 (*See Application ¶ 10*). The Company's request to collect temporary interim rates was subsequently granted by the Commission through the issuance of Order No. 8848 dated January 19, 2016.<sup>1</sup>

On July 13, 2016, pursuant to 26 *Del. C.* §306(b), Chesapeake filed a petition ("Petition") to implement revised interim rates to collect the additional \$2,241,823 in revenues above the initial level of \$2,500,000 set to be recovered from the implementation of the first interim rates that occurred earlier this year. Chesapeake also requests in its Petition that the Commission waive the surety bond requirement outlined in 26 *Del. C.* §306(b). The Company's reasoning behind this request is that it is "strong financially" and has financing arrangements in place with Prudential Investment Management and five other financial institutions for a total of up to \$300 million. In other words, the Company believes it has access to sufficient financial

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<sup>1</sup> PSC Order No. 8848 also granted Chesapeake's request to waive the requirement of 26 *Del. C.* §306(b) of a bond with surety with respect to the interim rates, conditioned on Chesapeake's representation that it will abide by any Commission refund order.

resources to provide a refund if it were ordered to do so by the Commission. The Company also agrees that it would abide by any Commission order that may require a refund of amounts collected through interim rates (See Petition ¶ 8, 9)

**Review and Recommendation:**

Under 26 *Del. C.* §306(b), at the expiration of seven (7) months after the filing of an application for a rate increase, a public utility is authorized to implement its proposed rate increase, on a temporary basis and subject to refund, under bond with sureties, so long as the revised interim increase does not exceed 15% of the public utility's gross intrastate operating revenues.<sup>2 3</sup>

Staff has reviewed the proposed revised interim rate calculations, the clean and redlined tariff sheets, and the rate derivation model contained within Chesapeake's petition and concurs with the Company's distribution of the revised interim rates which total to approximately \$4.7 million. The proposed revised interim rates, which will increase rates across all rate classes, are proposed to be effective with usage on and after August 1, 2016, which is beyond the seven (7) month statutory time window.

Therefore, Staff respectfully recommends that the Commission approve implementation of the Company's proposed revised interim rates with usage on or after August 1, 2016 and a waiver of the requirement to file a bond in order to implement such rates.

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<sup>2</sup> 26 *Del. C.* §306(b): "Upon termination of the 7 months as set forth in paragraph (a)(1) of this section the proposed rate change shall automatically become effective if the public utility files with the Commission a bond in a reasonable amount approved by the Commission with sureties approved by the Commission, conditioned upon the refund, in a manner to be prescribed by order of the Commission, to the persons entitled thereto of the amount of the excess, if the rate so put into effect is finally determined to be excessive; or there may be substituted for such bond other arrangements satisfactory to the Commission for the protection of the parties interested. In no event shall a public utility put a rate into effect under bond as authorized in this subsection that would constitute an increase in excess of 15 percent of the public utility's gross intrastate operating revenues."

<sup>3</sup> On its 2015 annual gross revenue return filed on March 31, 2016, Chesapeake reported gross Delaware intrastate operating revenues of \$61,470,683. Hence, Chesapeake's revised interim increase does not exceed 15% of its intrastate operating revenues (\$9,220,602.45)